

Eastern Caribbean Currency Union (ECCU)

Preliminary estimates for 2011 indicate that economic activity in the Eastern Caribbean Currency Union (ECCU) began to recover from the effects of the global economic crisis. GDP growth is projected at 1.5% for 2011, reversing two consecutive years of negative growth. This upturn was primarily driven by brisker activity in the tourism sector, along with a stronger performance by the complementary services of electricity and water and the social services sector. Higher food and fuel prices contributed to an inflation rate of 3.5% year-on-year at the end of June 2011. Enhanced tax revenue collection efforts by some countries have resulted in a reduction in the overall fiscal deficit to 2.6% of GDP in the first half of 2011, compared with a deficit of 3.2% of GDP for the same period in 2010. Higher travel receipts and an improvement in exports are expected to lead to a contraction in the current account deficit from 20% of GDP in 2010 to 17.7% of GDP in 2011. GDP growth of 2% is anticipated in 2012 on the basis of stronger tourism activity with spillover effects onto the rest of the economy.

In 2011, fiscal policy was focused on containing expenditure while enhancing revenue efforts. As the ECCU economies are dependent on Europe and the United States for a significant portion of their fiscal revenue, the uncertain economic outlook in these countries could negatively affect government revenue during the later part of the year. Consolidated fiscal data for the first half of 2011 indicated an increase in current revenue by nearly 6% to 23.4% of GDP, compared with a decline of 5% for the same period in 2010. This increase reflected higher tax receipts associated with the increase in economic activity and, in the case of Saint Kitts and Nevis, the introduction of a value added tax towards the end of 2010. Current expenditure, which had decreased by 1.7% in 2010, increased by 3% to stand at 22.6% of GDP, while capital expenditure increased only marginally (by 0.7%). As a consequence, the primary balance shifted to a small surplus of 0.14% of GDP and the overall fiscal deficit improved to 2.6% of GDP from 3.2% of GDP in 2010.

Two countries, Antigua and Barbuda and Saint Kitts and Nevis, are currently under stand-by arrangements with the International Monetary Fund (IMF) aimed at strengthening their fiscal positions and placing public debt levels on a sustainable footing. These arrangements, along with home-grown programmes, contributed to a

decline in the total ECCU public debt-to-GDP ratio from 83.5% at the end of December 2010 to 80.8% at the end of June 2011. In 2012, the debt-to-GDP ratio is expected to increase slightly due to loan inflows into Saint Lucia for reconstruction activities related to hurricane Tomas and the rehabilitation of the Hewanorra International Airport as well as IMF loans to Antigua and Barbuda and Saint Kitts and Nevis.

Monetary policy remained unchanged in 2011 as the Eastern Caribbean Central Bank (ECCB) maintained the minimum savings deposit rate at 3% and the discount rate at 6.5%. Despite improved liquidity in the banking system due to increases in grants and official inflows, the average prime lending rate remained unchanged at 11.25%. Domestic credit to the private sector remained sluggish and grew by a minuscule 0.4% for the period January to August 2011, compared with growth of 1.5% for the same period in 2010. This tepid growth reflected the weak economic conditions and the tighter borrowing terms and conditions of commercial banks. On the other hand, credit to the public sector showed stronger growth of 3.2% in the year to August 2011, compared with a decline of nearly 22% for the same period in 2010. The exchange rate remains fixed at 2.7 Eastern Caribbean dollars to 1 US\$.

Preliminary estimates for 2011 indicate that ECCU will grow by 1.5%, reversing negative growth of 5.7% and 1.9% in 2009 and 2010, respectively. Positive growth has been registered for all countries with the exception of Antigua and Barbuda. This growth was mainly fuelled by an increase in tourism activity (4.7%) and other services such as electricity and water (2.1%) and public administration and social services (5.2%). Construction, which accounts for approximately 10% of GDP, remained depressed (-2.4%) owing to the lack of private sector and government capital investments. The tourism sector, which is a major driver of economic growth and accounts for about 9% of GDP, improved thanks to a 1.1% increase in stay-over arrivals up to the third quarter of 2011. This was lower than the 3.9% growth in stay-over arrivals reported for the first three quarters of 2010. By contrast, the downtrend in cruise ship arrivals continued with a decline of 5.4%.

The manufacturing sector, which represents about 4% of GDP, showed positive signs and grew by 0.4% owing to increases in the production of beverages, flour and soap. Agricultural output, which contributes about 3.8% to GDP, continued to decline in 2011, though at a slower pace than in 2010. The countries of the region are still feeling the effects of hurricane Tomas, as it took about nine months for new crop production to mature. As a result, agricultural production should begin to improve in the second half of 2011. In 2012, economic activity is expected to expand by 2%, driven by increased activity in tourism, construction and manufacturing.

Inflation stood at 3.5% for the first half of 2011, triggered by higher prices for food, fuel, electricity, and transportation and communications. This reflected increases in the prices of these commodities on the global market.

Preliminary estimates for 2011 indicate that the current account deficit will diminish slightly to reach 17.9% of GDP, owing mainly to an increase in exports. The trade deficit is expected to narrow marginally due to a 3% rise

**EASTERN CARIBBEAN CURRENCY UNION:
MAIN ECONOMIC INDICATORS ^a**

	2009	2010	2011 ^b
Annual growth rates			
Gross domestic product	-5.7	-1.9	1.5 ^c
Consumer prices	-0.6	4.5	3.5 ^d
Money (M1)	-7.5	1.9	-3.9 ^e
Annual average percentages			
Central government overall balance / GDP	-4.7	-2.4	-2.6 ^c
Nominal deposit rate ^f	4.5	4.5	4.3 ^g
Nominal lending rate ^f	10.8	11.3	11.3 ^g
Millions of dollars			
Exports of goods and services	1 981	1 896	1 946
Imports of goods and services	2 882	2 825	2 843
Current account balance	-973	-970	-923
Capital and financial balance ^h	1 073	1 064	949
Overall balance	100	93	26

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Includes Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Vincent and the Grenadines and Saint Lucia.

^b Preliminary estimates.

^c First semester.

^d Twelve-month variation to June 2011.

^e Twelve-month variation to August 2011.

^f Weighted average.

^g Figure for June.

^h Includes errors and omissions.

in exports of cocoa, nutmeg and mace, while imports have remained fairly constant. The service account is projected to improve, boosted by a 2.6% increase in travel receipts due to higher tourism demand. The surplus on the capital and financial accounts contracted by 10.8% in 2011 as a result of lower grant inflows, reduced public-sector long-term loans and a decline in foreign direct investment (FDI). International reserves grew by 6.2% to stand at US\$ 982 million, sufficient to cover 3.8 months of imports. The current account deficit is expected to widen slightly to just over 18% of GDP in 2012, reflecting an expansion in imports, which will be somewhat cushioned by higher travel receipts. FDI is expected to post stronger growth to support the renewed tourism activity.